

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01  
INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04  
CEA-01 AGRE-00 /092 W  
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R 211913Z APR 77  
FM AMCONSUL TORONTO  
TO SECSTATE WASHDC 5345  
INFO AMEMBASSY OTTAWA  
AMCONSUL MONTREAL  
AMCONSUL QUEBEC  
AMCONSUL WINNIPEG  
AMCONSUL CALGARY  
AMCONSUL HALIFAX  
AMCONSUL VANCOUVER

UNCLAS TORONTO 0942

E.O. 11652 N/A  
TAGS: PGOV, EFIN, CA  
SUBJECT: SUPPLEMENT TO 1977 ONTARIO BUDGET REFUTES QUEBEC  
CLAIMS ON COSTS/BENEFITS OF CONFEDERATION

REF; TORONTO 917 (NOTAL)

1. IN A BUDGET PAPER "FEDERAL FISCAL REDISTRIBUTION WITHIN CANADA"  
AND A SUPPLEMENT TO THE 1977 ONTARIO BUDGET "INTERPROVINCIAL  
TRADE FLOWS, EMPLOYMENT AND THE TARIFF IN CANADA," ONTARIO  
TREASURER MCKEOUGH SUPPORTED THE FEDERAL REBUTTAL OF SOME  
WEEKS AGO TO THE PROVINCE OF QUEBEC'S STUDY ALLEGING THAT  
CONFEDERATION HAD COST QUEBEC DOLS.4.3 BILLION BETWEEN  
1961 AND 1975. IN ADDITION, AS ONE TORONTO TELEVISION COMMENTATOR  
PUT IT, THE TREASURER'S STUDY PROVIDES THE ECONOMIC JUSTIFICATION  
FOR ONTARIO PREMIER DAVIS' STATEMENT REGARDING ONTARIO OPPOSITION  
TO ECONOMIC UNION WITH AN INDEPENDENT QUEBEC (SEE REFTEL).  
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2. THE BUDGET PAPER LOOKS AT THREE WAYS OF MEASURING THE FISCAL  
IMPACT OF THE GOVERNMENT OF CANADA UPON THE PROVINCES. A)  
ON A NATIONAL ACCOUNTS BASIS, THE PAPER SHOWS A CUMULATIVE  
SURPLUS TO THE FEDERAL GOVERNMENT FROM ONTARIO BETWEEN  
1961 AND 1976 OF DOLS. 26.2 BILLION. B) ON A PUBLIC ACCOUNTS  
BASIS, THE STUDY EXAMINES THE 1961/62, 1968/69 AND 1975/76

FISCAL YEARS AND SHOWS THAT WHILE THE FEDERAL GOVERNMENT OBTAINED SURPLUSES FROM ONTARIO IN EACH OF THE THREE YEARS OF DOLS. 770 MILLION, DOLS. 820 MILLION AND DOLS. 1.1 BILLION, ACCOUNTS RELATING TO QUEBEC WERE IN SURPLUS ONLY IN 1961/62 (DOLS. 101 MILLION) BUT WENT INTO DEFICIT IN 1968/69 AND 1975/76 (DOLS. 190 MILLION AND DOLS. 2.3 BILLION). C) ON AN EQUALIZATION FORMULA BASIS, EXAMINING THE DIFFERENTIAL CAPACITY TO RAISE FEDERAL REVENUE IN EACH PROVINCE, THE STUDY SHOWS EQUALIZATION PAYMENTS TO QUEBEC OF DOLS. 6.3 BILLION IN THE TEN FISCAL YEARS BETWEEN 1967/68 AND 1976/77.

"TO CONCLUDE THAT QUEBEC DOES NOT REAP LARGE FISCAL BENEFITS FROM CONFEDERATION, ONE MUST IGNORE ECONOMIC REALITIES AND DEFINE AWAY THE TRUE DIMENSIONS OF FEDERAL ACTIVITY IN THAT PROVINCE -- ACTIVITY WHICH IS PAID FOR BY ALL CANADIANS. THE PUBLIC ACCOUNTS ANALYSIS SHOWS THAT THREE PROVINCES -- ALBERT, BRITISH COLUMBIA AND ONTARIO -- ARE NET CONTRIBUTORS TO THE NATIONAL TREASURY, WHILE THE REMAINING SEVEN PROVINCES ARE NET BENEFICIARIES. IT IS ONLY THROUGH THE FEDERAL SYSTEM THAT THIS REDISTRIBUTION FROM CONTRIBUTORS TO BENEFICIARIES IS POSSIBLE."

3. THE SUPPLEMENTAL STUDY SHOWS THAT 24.8 PERCENT OF ONTARIO'S 884,400 MANUFACTURING JOBS RESULT FROM INTERPROVINCIAL TRADE AND THAT WHILE ONTARIO HAS A VERY FAVORABLE POSITIVE JOB BALANCE (ONTARIO JOBS IN INTERPROVINCIAL TRADE COMPARED WITH JOBS IN OTHER PROVINCES CREATED BY SALES TO ONTARIO) WITH THE ATLANTIC AND PRAIRIE PROVINCES AND BRITISH COLUMBIA, ITS FAVORABLE BALANCE WITH QUEBEC IS ONLY SOME 2,000 POSITIONS. IF TRADE BETWEEN THE TWO WERE TO STOP, THEORETICALLY IT WOULD COST ONTARIO 105,800 JOBS AND QUEBEC 103,800 JOBS. IN REGARDS TO TARIFF PROTECTION, UNCLASSIFIED

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THE STUDY STATES THAT WHILE THE AVERAGE PROTECTION TO THE MANUFACTURERS OF THE REST OF CANADA IS 7.7 OR 7.8 PERCENT AD VALOREM, TO ONTARIO PRODUCTS IT IS 8.4 PERCENT AND TO QUEBEC 9.9 PERCENT (NOT COUNTING SUBSIDY EFFECT OF NON-TARIFF BARRIERS PROTECTING QUEBEC'S KNITTING AND CLOTHING INDUSTRIES). THE STUDY SHOWS THE AVERAGE TARIFF-INDUCED SUBSIDY PER JOB IN MANUFACTURING BY CANADIAN CONSUMERS OUTSIDE THE PROVINCE OF MANUFACTURE TO BE DOLS. 982 IN THE ATLANTIC PROVINCES, DOLS. 1,111 IN QUEBEC, DOLS. 836 IN ONTARIO, DOLS. 1,270 IN THE PRAIRIES AND DOLS. 506 IN BRITISH COLUMBIA. THE STUDY CONCLUDES THAT "CONFEDERATION HAS PROVIDED AN ECONOMIC FRAMEWORK IN WHICH ALL PROVINCES BENEFIT ... IN TERMS OF JOB CREATION AND INDIRECT SUBSIDY FOR THEIR MANUFACTURING SECTORS." DIGGINS

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## Message Attributes

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